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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BEC1034 – MICROECONOMICS (All Sections/Groups)

28 OCTOBER 2017
9.00 a.m. - 11.00 a.m.
(2 Hours)

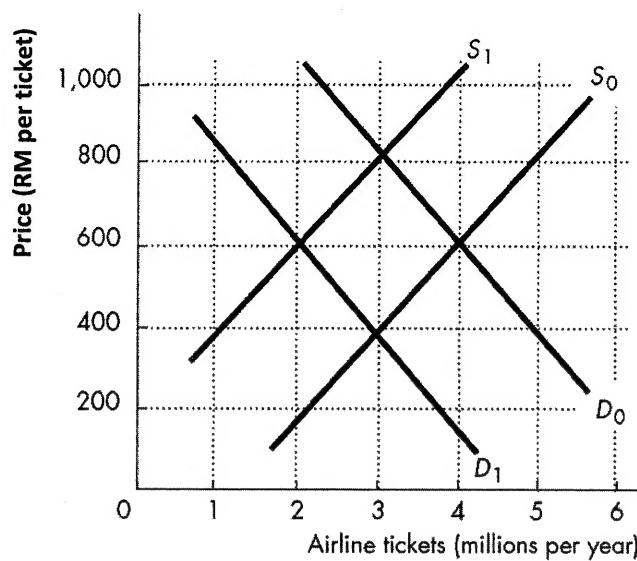
INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **TEN** pages with **TWO** sections only.
Section A – Forty (40) Multiple Choice Questions
Section B – Three (3) Structured Questions
2. Attempt **ALL** questions in both **Sections A and B**. The distribution of the marks for each question is given.
3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

1. The fact that wants cannot be fully satisfied with available resources reflects the definition of
 - A) incentives.
 - B) scarcity.
 - C) efficiency.
 - D) for whom to produce.
2. If the marginal benefit from an additional computer exceeds the marginal cost of the additional computer, then to use resources allocatively efficiently,
 - A) more resources should be used to produce additional computers.
 - B) fewer resources should be used to produce additional computers.
 - C) if the marginal benefit exceeds the marginal cost by as much as possible, the efficient amount of resources is being used to produce computers.
 - D) None of the above is correct because marginal benefit and marginal cost have nothing to do with efficient resource allocation.
3. In general, the more resources that are devoted to technological research, the
 - A) greater is current consumption.
 - B) higher is the unemployment rate.
 - C) faster the PPF shifts outward.
 - D) more the PPF will bow outward.
4. Suppose that when Netflix produces 1 new drama series in a season it gives up the chance to produce 3 new reality shows. This means that
 - A) the opportunity cost of a new drama series is 1/3 of a new reality show.
 - B) the opportunity cost of a 1 new reality show is 1/3 of a new drama series.
 - C) Netflix has a comparative advantage in producing new drama series.
 - D) Netflix has a comparative advantage in producing new reality shows.
5. A factor market is a market in which
 - A) households buy goods and services.
 - B) households sell the services of the factors of production they control.
 - C) firms sell the services of the factors of production.
 - D) firms sell goods and services.
6. Markets are best defined as
 - A) arrangements where buyers and sellers get together to buy and sell.
 - B) specific geographic locations where people get together to buy and sell.
 - C) hypothetical constructs used to analyse how people form their tastes and preferences.
 - D) places where people can inspect goods and services carefully.

Continued...

Figure 1

7. **Figure 1** shows the market for airline tickets. If airline tickets are a normal good, then the recession in 2008 that caused people's incomes to decrease lead to a shift from
 - A) D_0 to D_1 .
 - B) D_1 to D_0 .
 - C) S_0 to S_1 .
 - D) S_1 to S_0 .
8. A technological improvement lowers the cost of producing coffee. At the same time, consumers' preferences for coffee increase. The equilibrium price of coffee will
 - A) rise.
 - B) fall.
 - C) remain the same.
 - D) rise, fall, or stay the same, depending on the relative size of the shifts in the demand and supply curves.
9. Bicycles are made out of steel. If the price of steel increases, there is a shift in the supply curve of bicycles that leads to
 - A) a shift in the demand curve for bicycles.
 - B) a temporary surplus of bicycles.
 - C) a permanent surplus of bicycles.
 - D) an increase in the price of a bicycle.

Continued...

10. If the price of a video download is below its equilibrium price, the quantity supplied is _____ than the quantity demanded. If the price of a video download is above its equilibrium price, the quantity supplied is _____ than the quantity demanded.

- A) less; greater
- B) greater; less
- C) less; less
- D) greater; greater

11. The price elasticity of demand for movies is approximately 1 and 500,000 tickets are sold per day. If the average price of a movie ticket increases by 20 percent, the number of tickets sold each day decreases to _____.

- A) 400,000
- B) 300,000
- C) 420,000
- D) 475,000

12. When the price of milk goes up as a result of a rightward shift of the demand curve for milk, the total revenue collected by milk producers will

- A) increase only if milk is inelastic in supply.
- B) decrease only if milk is elastic in supply.
- C) remain constant only if milk has a unitary price elasticity of supply.
- D) none of the above.

13. Din increased his spending on steak from 7 units to 11 units per week because of a 12 percent salary increase, so his

- A) income elasticity of demand for steak is 1.37.
- B) price elasticity of demand for steak is 1.37.
- C) income elasticity of demand for steak is 3.7.
- D) price elasticity of demand for steak is 3.7.

14. If the cross elasticity of demand between two goods is -0.56, then a fall in the price of one good leads to a _____ shift in the _____ of the other good.

- A) rightward; demand
- B) rightward; supply
- C) leftward; demand
- D) leftward; supply

15. The government wants to increase its tax revenue and plans to implement an additional sales tax. The government will raise more tax revenue if it taxes a good with an _____ rather than a good with an _____.

- A) inelastic demand; elastic demand
- B) elastic demand; inelastic demand
- C) elastic supply; inelastic supply
- D) None of the above answers is correct.

Continued...

16. An example of a price ceiling would be the government setting the price of sugar

- A) above the equilibrium market price.
- B) at the equilibrium market price.
- C) below the equilibrium market price.
- D) none of the above.

17. If policy makers believe that the equilibrium wage rate is too low, policy makers can raise wages by legislating a minimum wage, that is, a wage

- A) ceiling above the equilibrium wage.
- B) ceiling below the equilibrium wage.
- C) floor above the equilibrium wage.
- D) floor below the equilibrium wage.

18. A person's consumption possibilities is defined by the budget line because

- A) it marks the boundary between what is affordable and unaffordable.
- B) it represents the individual's preference for different combinations of goods.
- C) it marks the boundary between what can be produced and what is unattainable given the current state of technology and resources.
- D) all consumers must consume on their budget line.

19. Shafiq buys only soda and pizza and is buying the amounts that maximise his utility. The marginal utility from a soda is 30 and the price of a soda is RM2. The marginal utility from a slice of pizza is also 30. The price of a slice of pizza must be

- A) RM30.
- B) RM2.
- C) RM1.
- D) some amount that cannot be calculated without more information.

20. Suppose Ali's consumption bundle is made up of 2 goods, apples and bottles of juice. If the price of an apple increases, then Ali's budget line would

- A) not change.
- B) shift towards the origin on the apples axis only.
- C) shift towards the origin on both the apples and bottles of juice axes.
- D) shift away from the origin on the bottles of juice axis only.

21. Explicit costs

- A) require an outlay of money by the firm.
- B) include all of the firm's opportunity costs.
- C) include income that is forgone by the firm's owners.
- D) Both B and C are correct.

22. Which of the following must always be true as the quantity of output increases?

- A) Marginal cost must rise.
- B) Average total cost must rise.
- C) Average variable cost must rise.
- D) Average fixed cost must fall.

Continued...

23. Economic profit is equal to

- A) total revenue minus the explicit cost of producing goods and services.
- B) total revenue minus the opportunity cost of producing goods and services.
- C) total revenue minus the accounting cost of producing goods and services.
- D) average revenue minus the average cost of producing the last unit of a good or service.

24. In a competitive market, the actions of any single buyer or seller will

- A) have a negligible impact on the market price.
- B) have little effect on overall production but will ultimately change final product price.
- C) cause a noticeable change in overall production and a change in final product price.
- D) adversely affect the profitability of more than one firm in the market.

25. If a firm in a perfectly competitive market triples the number of units of output sold, then total revenue will

- A) more than triple.
- B) less than triple.
- C) exactly triple.
- D) Any of the above may be true depending on the firm's labour productivity.

26. When firms are neither entering nor exiting a perfectly competitive market,

- A) total revenue must equal total variable cost for each firm.
- B) economic profits must be zero.
- C) price must equal average variable cost for each firm.
- D) Both A and C are correct.

27. Which of the following statements is correct?

- A) A competitive firm is a price maker and a monopoly is a price taker.
- B) A competitive firm is a price taker and a monopoly is a price maker.
- C) Both competitive firms and monopolies are price takers.
- D) Both competitive firms and monopolies are price makers.

28. An industry is a natural monopoly when

- I. the government assists the firm in maintaining the monopoly.
- II. a single firm owns a key resource.
- III. a single firm can supply a good or service to an entire market at a smaller cost than could two or more firms.

- A) II only.
- B) III only.
- C) I and II.
- D) II and III.

Continued...

29. A profit-maximising monopolist will produce the level of output at which

- A) average revenue is equal to average total cost.
- B) average revenue is equal to marginal cost.
- C) marginal revenue is equal to marginal cost.
- D) total revenue is equal to opportunity cost.

30. The problem with monopolies is their ability

- I. to do away with barriers to entry.
- II. to price their product at a level that exceeds marginal cost.
- III. to restrict output below the socially efficient level of production.

- A) I and II.
- B) II and III.
- C) III only.
- D) I, II, and III.

31. One characteristic of an oligopoly market structure is:

- A) firms in the industry are typically characterised by very diverse product lines.
- B) firms in the industry have some degree of market power.
- C) products typically sell at a price that reflects their marginal cost of production.
- D) the actions of one seller have no impact on the profitability of other sellers.

32. A form of industry structure characterised by a few firms each large enough to influence market price is

- A) perfect competition.
- B) monopolistic competition.
- C) oligopoly.
- D) monopoly.

33. _____ occurs when a large, powerful firm drives smaller firms out of the market by temporarily selling at an artificially low price.

- A) A dominant strategy
- B) A prisoners' dilemma
- C) Tying
- D) Predatory pricing

34. In a monopolistically competitive industry, firms set price

- A) equal to marginal cost since each firm is a price taker.
- B) below marginal cost since each firm is a price taker.
- C) above marginal cost since each firm is a price maker.
- D) always a fraction of marginal cost since each firm is a price maker.

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35. A profit-maximising firm in a monopolistically competitive market is characterised by which of the following?

- A) Average revenue exceeds marginal revenue.
- B) Marginal revenue exceeds average revenue.
- C) Average revenue is equal to marginal revenue.
- D) Revenue is always maximised along with profit.

36. In which of the following market structures can firms earn economic profits in the long run?

- A) Perfect competition.
- B) Monopolistic competition.
- C) Monopoly.
- D) Both B and C.

37. Because a firm's demand for a factor of production is derived from its decision to supply a good in the market, it is called a

- A) differentiated demand.
- B) secondary demand.
- C) derived demand.
- D) hybrid demand-supply.

38. If the price of airline tickets falls, what will happen to the demand curve for flight attendants?

- A) It will shift to the right.
- B) It will shift to the left.
- C) The direction of the shift is ambiguous.
- D) It will remain unchanged.

39. Labour-saving technology causes which of the following?

- I. The marginal productivity of labour increases.
- II. The marginal productivity of labour decreases.
- III. Labour demand shifts to the right.
- IV. Labour demand shifts to the left.

- A) I only.
- B) II only.
- C) I and III.
- D) II and IV.

40. The value of the marginal product of labour is equal to the change in

- A) marginal cost caused by the addition of the last worker.
- B) total cost caused by the addition of the last worker.
- C) total revenue caused by the addition of the last worker.
- D) total profit caused by the addition of the last worker.

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SECTION B: STRUCTURED QUESTIONS (60 MARKS)**Question One (20 marks)**

(a) For each of the following statements, answer 'true' or 'false' and then state a reason for your answer:

- (i) An increase in the price of banana will cause the demand curve for banana to shift to the left. (2 marks)
- (ii) A decrease in the price of flour will cause the supply of cake to decrease (assume that flour is the ingredient to make a cake). (2 marks)
- (iii) If the income of consumer increases, the demand curve for good A shifts to the left (assume that good A is a normal good). (2 marks)

(b) Draw the production possibility frontier (PPF). Explain the concept of scarcity, opportunity cost and efficiency using the PPF you have drawn. (6 marks)

(c) **SCENARIO 1:** Consider the budget allocation decision of a family of four on vacation in a beach resort. The family has RM300 budgeted for entertainment for the weekend and two options: Renting bicycles for RM10 an hour per bicycle or playing miniature golf for RM4 a game per person. Consider each question separately, and place golfing on the vertical axis and bicycling on the horizontal axis. Assume that all four family members must do everything together.

- (i) Refer to **SCENARIO 1**. Graph the budget constraint. (4 marks)
- (ii) Refer to **SCENARIO 1**. Graph the effect of a 100% increase in the price of miniature golf. (4 marks)

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Question Two (20 marks)

Table 2 summarises the conditions for each monopolist.

Table 2

Monopolist	P	MR	TR	Q	TC	MC	ATC	AVC
A	11	8		20	200	5		9
B	3	1		100		1.5	2.5	2
C	4	2	200			2	7	5
D	8	5		10	70	5		6

Note: P = Price, MR=Marginal Revenue, TR=Total Revenue, Q = Quantity, TC=Total Cost, MC=Marginal Cost, ATC=Average Total Cost, AVC=Average Variable Cost.

(a) Calculate the missing numbers for each monopolist. Recreate Table 2 in your answer booklet. (8 marks)

(b) Based on **Table 2** above, for each monopolist (A, B, C, and D), determine if they should

- continue producing at the same level of output;
- increase output;
- decrease output; or
- shut down.

Recreate the following table in your answer booklet. Explain the decision for each monopolist.

Monopolist	Decision	Why?
A		
B		
C		
D		

(12 marks)

Continued...

Question Three (20 marks)

(a) Daniel has quit his job as a computer programmer, where he was earning a salary of RM50,000 per year. Now, he opens his own computer software business store in a building that he owns and was previously rented out for RM24,000 per year. In his first year of business he has to incur the following expenses: mortgage RM18,000; salary paid to himself RM40,000; rent RM0; other expenses RM25,000.

Compute the accounting cost and the economic cost associated with Daniel's computer software business. (8 marks)

(b) Explain with an example why the demand for resources is called a derived demand. On what two factors do the strength of the demand for resources depend and how are these two factors related? (12 marks)

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